Supreme Court, U.S.
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No. 15-375

IN THE
Supreme Court of the United States

SUPAP KIRTSAENG DBA BLUECHRISTINE99,

Petitioner,

v.

JOHN WILEY & SONS, INC.,

Respondent.

On Writ Of Certiorari To The
United States Court Of Appeals
For The Second Circuit

BRIEF OF RESPONDENT

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QUESTION PRESENTED

Under Section 505 of the Copyright Act, "the court may award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505. In *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), this Court identified a handful of non-exclusive factors that district courts could consider when determining whether fees should be awarded. Key among those factors, this Court indicated, was whether a losing party's position was objectively reasonable. *Fogerty* further recognized that the settled practice under the materially identical fee provision of the 1909 Copyright Act was typically not to award fees where the losing party had taken a reasonable position.

The question presented is whether the Second Circuit nonetheless violates § 505 by requiring district courts to consider all the factors this Court identified in *Fogerty* as well as any other relevant considerations, and to give substantial weight to the objective reasonableness of the losing party's position as part of that totality-of-the-circumstances analysis.

RULE 29.6 STATEMENT

John Wiley & Sons, Inc. has no parent company, and no other publicly held company owns 10% or more of its stock.

TABLE OF CONTENTS

QUESTION PRESENTED i

RULE 29.6 STATEMENT ii

TABLE OF AUTHORITIES vi

INTRODUCTION 1

STATEMENT 4

A. Kirtsaeng's Successful Textbook Arbitrage Business. 4

B. After Kirtsaeng Is Sued For Copyright Infringement, Kirtsaeng Transfers Assets Out of the Country, Is Found Liable, and Leaves The Country Himself. 5

C. The Second Circuit Affirms The Judgment After This Court Splits 4-4 On The First Sale Doctrine. 6

D. In A Sharply Divided Decision, This Court Reverses The Judgment. 8

E. Kirtsaeng Seeks Over $2,000,000 in Fees Even Though Kirtsaeng Had No Obligation To Pay Any Of His Supreme Court Counsel's Fees. 9

F The District Court Denies The Fee Motion In A Detailed Opinion That Concluded Every Factor Bearing On The Fee Determination Counseled Against Awarding Fees....11

G. The Second Circuit Affirms the Denial Of Fees As Appropriate In Light Of All The Relevant Considerations....17

SUMMARY OF ARGUMENT....18

ARGUMENT....24

I. Section 505 Is Properly Interpreted To Give Substantial Weight To Objective Reasonableness....24

A. Courts have long given objective reasonableness substantial weight in determining whether to award fees in copyright suits, and Congress intended to continue that practice in Section 505....24

B. Giving substantial weight to objective reasonableness furthers the goals of the Copyright Act as illuminated by *Fogerty*....29

C. Kirtsaeng's criticisms of *Matthew Bender* are without basis....35

1. Kirtsaeng's "pretermit" criticism is misguided and inaccurate....35

2. Kirtsaeng's evenhandedness criticism is also wrong. 43

II. Kirtsaeng's Proposal Should Be Rejected Because It Would Frustrate, Rather Than Further, The Goals Of The Copyright Act. 46

A. Kirtsaeng's proposal would disincentivize meritorious litigation that could clarify important questions of copyright law 47

B. Kirtsaeng's proposal conflicts with *Fogerty* and would effectively yield the British Rule. 50

C. Kirtsaeng's proposal would pose significant problems in implementation in the district courts. 52

CONCLUSION 54

TABLE OF AUTHORITIES

CASES

Action Tapes, Inc. v. Mattson, 462 F.3d 1010 (8th Cir. 2006) 37

Alfred Bell & Co. v. Catalda Fine Arts, 191 F.2d 99 (2d Cir. 1951) 25

Arista Records, LLC v. Launch Media, Inc., 344 F App'x 648 (2d Cir. 2009) 40

Bilal v. Driver, 251 F.3d 1346 (11th Cir. 2001) 52

Bill Graham Archives v. Dorling Kindersley Ltd., 448 F.3d 605 (2d Cir. 2006) 43

Burka v. United States Department of Health & Human Services, 142 F.3d 1286 (D.C. Cir. 1998) 32

Cengage Learning, Inc. v. Shi, No. 13CV7772-VSB-FM, 2015 WL 5167775 (S.D.N.Y. Sept. 3, 2015) 46

Cloer v. Secretary of Health & Human Services, 675 F.3d 1358 (Fed. Cir. 2012) *aff'd sub nom. Sebelius v. Cloer*, 133 S. Ct. 1886 (2013) 31

Cloth v. Human, 146 F Supp. 185 (S.D.N.Y. 1956) 25

Community for Creative Non-Violence v. Reid, 490 U.S. 730 (1989) 34

Cooter & Gell v. Hartmax Corp., 496 U.S. 384 (1990) 33

Diamond Star Building Corp. v. Freed, 30 F.3d 503 (4th Cir. 1994) 37

Earth Flag Ltd. v. Alamo Flag Co., 154 F Supp. 2d 663 (S.D.N.Y. 2001) 45

Edward B. Marks Music Corp. v. Continental Record Co., 222 F.2d 488 (2d Cir. 1955) 25

Eisenschiml v. Fawcett Publications, Inc., 246 F.2d 598 (7th Cir. 1957) 25

Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994) 1, 27, 28, 29, 30, 31, 32, 34, 36, 51

Garcia-Goyco v. Law Environmental Consultants, Inc., 428 F.3d 14 (1st Cir. 2005) 37

Gasperini v. Center for Humanities, Inc., 518 U.S. 415 (1996) 53

Griffon v. United States Department of Health & Human Services, 832 F.2d 51 (5th Cir. 1987) 32

Hughes v. Rowe, 449 U.S. 5 (1980) 52

Lava Records, LLC v. Amurao, 354 F App'x 461 (2d Cir. 2009) 40

Lorillard v. Pons, 434 U.S. 575 (1978) 28

Lotus Development Corp. v. Borland International, Inc., 140 F.3d 70 (1st Cir. 1998) 34

Mahan v. Roc Nation, LLC, No. 15-1238-CV, – F App'x –, 2016 WL 730653 (2d Cir. Feb. 24, 2016) 34

Martin v. Franklin Capital Corp., 546 U.S. 132 (2005) 31, 36

Mattel, Inc. v. MGA Entertainment, Inc., 705 F.3d 1108 (9th Cir. 2013) 49

Mattel, Inc. v. MGA Entertainment Inc., No. CV 04-9049, 2011 WL 3420603 (C.D. Cal. Aug. 4, 2012), *aff'd*, 705 F.3d 1108 (9th Cir. 2013) 49

Matthew Bender & Co. v. West Publishing Co., 240 F.3d 116 (2d Cir. 2001) 34-35, 39, 43

Medforms, Inc. v. Healthcare Management Solutions, Inc., 290 F.3d 98 (2d Cir. 2002) 39, 40

Meshwerks, Inc. v. Toyota Motor Sales, U.S.A., Inc., 528 F.3d 1258 (10th Cir. 2008) 37

MiTek Holdings, Inc. v. Arce Engineering Co., 198 F.3d 840 (11th Cir. 1999) 38, 49, 50

Miles v. Apex Marine Corp., 498 U.S. 19 (1990) 27, 28

Morse v. Fields, 127 F Supp. 63 (S.D.N.Y. 1954) 25

Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S. Ct. 1749 (2014) 38

Official Aviation Guide Co. v. American Aviation Associates, 162 F.2d 541 (7th Cir. 1947) 25

Overman v. Loesser, 205 F.2d 521 (9th Cir. 1953) 25

Protoons Inc. v. Reach Music Publishing, Inc., No. 09 CIV 5580 (KBF), 2016 WL 680543 (S.D.N.Y. Feb. 19, 2016) 39

Pyatt v. Jean, No. 04-CV-3098 (TCP) (AKT), 2010 WL 3322501 (E.D.N.Y. Aug. 17, 2010) 45

Pyatt v. Raymond, No. 10 CIV 8764 (CM), 2012 WL 1668248 (S.D.N.Y May 10, 2012) 45

Quality King Distributors, Inc. v. L'anza Research International, Inc., 523 U.S. 135 (1998) 6

Rose v. Connelly, 38 F Supp. 54 (S.D.N.Y 1941) 26

Seltzer v. Green Day, Inc., 725 F.3d 1170 (9th Cir. 2013) 37

Swatch Group Management Services Ltd. v. Bloomberg L.P., 756 F.3d 73 (2d Cir. 2014) 43

T.D.D. Enterprises, Inc. v. Yeaney, 83 F App'x 492 (3d Cir. 2003) 37

UMG Recordings, Inc. v. Escape Media Group, Inc., No. 11 CIV 8407 TPG, 2015 WL 1873098 (S.D.N.Y. Apr. 23, 2015) 45-46

Video-Cinema Films, Inc. v. Cable News Network, Inc., No. 98 CIV 7128 (BSJ), 2003 WL 1701904 (S.D.N.Y. Mar. 31, 2003) 45

Viva Video, Inc. v. Cabrera, 9 F App'x 77 (2d Cir. 2001) 40

STATUTES

17 U.S.C. § 109(a) 5

17 U.S.C. § 505 ..... 9, 18, 24

42 U.S.C. § 1988 52

Copyright Act of 1909, § 40, 35 Stat. 1075, 1084 24

OTHER AUTHORITIES

Jeffrey Edward Barnes, *Attorney's Fee Awards in Federal Copyright Litigation After* Fantasy, 47 UCLA L. Rev. 1381 (2000) 44

Ralph S. Brown, Jr., *The Operation of the Damage Provisions of the Copyright Law: An Exploratory Study, in Subcomm. on Patents, Trademarks, and Copyrights of the S. Comm. on the Judiciary*, 86th Cong., 2d Sess. 59 (Comm. Print, Copyright Law Revision Study No. 23, 1960) 27, 28

Fed. R. Civ. P 11(b)(2) 52

Fed. R. Civ. P 16(c)(2)(A) 52

Melville B. Nimmer, *Nimmer on Copyright* § 161 (1964) 26

2 Melville B. Nimmer, *Nimmer on Copyright* § 161 (1972) 26

4 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 14.10[D][3][b] (2015) 38

Richard A. Posner, *An Economic Approach to Legal Procedure and Judicial Administration*, 2 J. Legal Stud. 399 (1973) 33

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INTRODUCTION

The copyright action brought by John Wiley & Sons, Inc. (Wiley) was the epitome of an objectively reasonable suit. Not only did Wiley prevail against Supap Kirtsaeng before the district court and Court of Appeals, but this Court had deadlocked 4-4 in a previous case on the very question of copyright law that was at the heart of Wiley's suit.

When Wiley ultimately lost in a divided decision by this Court, Kirtsaeng and his lawyers moved for over $2 million in attorney's fees. The district court denied that request. In a 20-page opinion, it held that every conceivable consideration counseled against awarding fees. Among those considerations was the fact that Wiley's merits position was objectively reasonable, a factor that was accorded substantial weight under circuit precedent.

Kirtsaeng contends that the district court was wrong to give substantial weight to the objective reasonableness of Wiley's infringement claim. But Kirtsaeng gets the law precisely backwards. For over one hundred years, objective reasonableness has been at the heart of copyright fee award determinations, and Congress intended to continue that practice under the modern fee award statute.

Moreover, as Kirtsaeng is forced to acknowledge, this Court held in *Fogerty v. Fantasy, Inc.*, that attorney's fees should be awarded in a manner that *encourages* the clarification of copyright law. 510 U.S. 517, 527 (1994). Giving substantial weight to objective

reasonableness of the losing party's position serves that goal perfectly because it encourages parties to litigate the close and difficult questions of copyright law where clarification is needed the most. Conversely, attorney's fees likely *are* appropriate where a party persists in litigating a weak copyright claim or defense. In those cases, the law is already clear, and fees appropriately serve to deter weak arguments and to compensate prevailing parties for the cost of meritless litigation.

Instead of looking to objective reasonableness, Kirtsaeng offers this Court an ill-defined and self-serving rule that would give primacy to the "importance" of the copyright issue in the case. But by awarding fees against a party whose objectively reasonable claims present an important, unresolved issue of copyright law, Kirtsaeng's rule perversely discourages that important issue from being litigated in the first place.

The remainder of Kirtsaeng's brief amounts to an extended plea that Kirtsaeng deserves fees because he was a "bit player" who "f[ou]ght" a supposed "copyright goliath" with a "warchest" and "army of lawyers." Kirtsaeng offered the same hyperbolic rhetoric to the district court, and a reader of Kirtsaeng's brief to this Court might be forgiven for thinking that the district court ignored these considerations in its single-minded focus on the objective reasonableness of Wiley's merits position. Indeed, Kirtsaeng prominently criticizes the district court for "devot[ing] less than a sentence to Kirtsaeng's substantive positions, the result he obtained, the

victory's wide-ranging impact, and the financial imbalance he confronted." Br. of Pet'r 3.

All of that is simply false. The district court devoted nearly a *dozen* pages to discussing factors other than objective reasonableness, and it found them wanting. For example, although the district court recognized that there could well be cases in which the need to compensate a prevailing party would outweigh the fact the losing party had an objectively reasonable position, this was not one of those cases. Kirtsaeng's victory preserved his million dollar arbitrage business, and he had no obligation whatsoever to pay the Supreme Court counsel who represented him even as they racked up millions of dollars in fees.

Kirtsaeng opens his brief by asking "[i]f not [me], then who?" Br. of Pet'r 2. The answer is the many litigants who prevailed against unreasonable positions or for whom an award of fees would otherwise serve the goals of the Copyright Act. Kirtsaeng is not one of those litigants, and an award of fees against Wiley would disserve the goals of the Copyright Act. The district court was therefore entirely correct to conclude that no fee award was justified, particularly in light of the reasonableness of Wiley's position, but also given the other factors considered and the absence of any other countervailing consideration. The Court of Appeals found no abuse of discretion by the district court, and that judgment should be affirmed.

STATEMENT

A. Kirtsaeng's Successful Textbook Arbitrage Business.

In 1997, Supap Kirtsaeng moved from his native Thailand to the United States to study mathematics at Cornell University. *See Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1356 (2013) (*Kirtsaeng I*), Pet. App. 34a. During his years as a student in the United States – both at Cornell and later at the University of Southern California – Kirtsaeng operated a highly remunerative academic textbook arbitrage business. *See id.* Taking advantage of the fact that market forces dictated that publishers, including Wiley, sell English-language textbooks made from less expensive materials in foreign countries for lower prices than the textbooks that were manufactured and sold in the United States, Kirtsaeng instructed his friends and family to purchase copies of foreign edition English-language textbooks in Thai bookshops and mail them to him in the United States. *Id.* Kirtsaeng then sold these Thai-purchased textbooks in the United States at prices substantially greater than their original purchase prices but below their list price in the United States. *Id.*

Kirtsaeng admitted that he collected approximately $900,000 in revenue from selling foreign-made textbooks produced by respondent and other publishers, Pet. App. 123a-124a, and documents subpoenaed from PayPal – an online payment processor – revealed that Kirtsaeng actually collected nearly $1.2

million between early 2005 and early 2009, JA 123. The exact amount of Kirtsaeng's profits from his arbitrage business is unknown, although Kirtsaeng was able to remit nearly $200,000 to a foreign account after he was sued, as discussed below.

B. After Kirtsaeng Is Sued For Copyright Infringement, Kirtsaeng Transfers Assets Out of the Country, Is Found Liable, and Leaves The Country Himself.

In 2008, Wiley brought suit alleging that Kirtsaeng's unauthorized importation and resale of its textbooks infringed two provisions of the Copyright Act: 17 U.S.C. § 106(3)'s protection of respondent's exclusive right to distribute the copyrighted works it owns, and 17 U.S.C. § 602's related prohibition on the unauthorized importation of those works. *See* Pet. App. 35a (quotation marks omitted).

In response, Kirtsaeng invoked the "first sale" doctrine, which provides that notwithstanding the exclusive distribution right protected in § 106(3), "the owner of a particular copy or phonorecord lawfully made under this title is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. § 109(a). Claiming that the textbooks he was selling were "lawfully made under this title" and legitimately acquired, Kirtsaeng argued that the "first sale" doctrine permitted him to resell the textbooks without the copyright owners' permission. Pet. App. 35a. During this time Kirtsaeng also withdrew

$188,100.00 from a domestic account and transferred it to a foreign account. JA 124.

The United State District Court for the Southern District of New York rejected Kirtsaeng's argument. *See John Wiley & Sons, Inc. v. Kirtsaeng*, No. A. 08 Civ. 7834, 2009 WL 3364037, at *10 (S.D.N.Y. Oct. 19, 2009), Pet. App. 183a-186a. Examining the text and context of the Copyright Act, the relevant legislative history, public policy implications, and this Court's decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the district court held the first sale doctrine did not permit the resale of foreign-manufactured goods. Pet. App. 168a-182a. After a two-day trial, a jury found that Kirtsaeng had willfully infringed respondent's American copyrights and awarded $600,000 in statutory damages. *See Id.* at 35a. Wiley did not move for attorney's fees as a prevailing party.

After the judgment was entered, Kirtsaeng left the United States and returned to Thailand having not satisfied any of the award against him. JA 108.

C. The Second Circuit Affirms The Judgment After This Court Splits 4-4 On The First Sale Doctrine Question.

The United States Court of Appeals for the Second Circuit affirmed. *See John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 224 (2d Cir. 2011), Pet. App.

145a.[1] As regards the application of the first sale doctrine to foreign-manufactured works, the Second Circuit noted that this Court had split 4-4 (with Justice Kagan recused) when presented with that very question the previous term. *See* Pet. App. 132a (citing *Costco Wholesale Corp. v. Omega S.A.*, 562 U.S. 40 (2010)).

Looking first at § 109(a) on its face, the Second Circuit found the statutory text "utterly ambiguous," neither foreclosing nor compelling an extraterritorial application. Pet. App. 137a. Faced with statutory ambiguity, the Second Circuit interpreted § 109(a) in the manner it believed most consistent with § 602(a)(1) and this Court's decision in *Quality King*. *See id.* The Second Circuit reasoned that § 602(a)(1)'s prohibition on the unauthorized importation into the United States of copyrighted works produced abroad "would have no force in the vast majority of cases" if the first sale doctrine was interpreted to protect the subsequent resale of copyrighted works purchased abroad. *Id.* at 137a-138a.

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[1] In addition to determining that the first sale doctrine was inapplicable to foreign-manufactured works, the Second Circuit also held that the jury had been correctly instructed and that the district court had not erred in introducing evidence of the gross revenues Kirtsaeng had earned from his arbitrage business. Pet. App. 145a.

D. In A Sharply Divided Decision, This Court Reverses The Judgment.

In a 6-3 decision this Court reversed. Pet. App. 68a-69a. The Court found the "geographical interpretation" of § 109(a) propounded by the Second Circuit (as well as the dissent, the United States, and Wiley and its many amici) created various linguistic problems and was inconsistent with both "historical and contemporary statutory context." *Id.* at 43a. The Court also found "no geographical distinctions" to the first sale doctrine as it was applied at common law, *Id.* at 50a, and it noted various "practical problems" that would impact foreign trade were the first sale doctrine applied only to domestically-produced works, *Id.* at 57a-58a. The Court acknowledged the statement in *Quality King* that the Second Circuit had relied upon, but noted, "[m]ost importantly, the statement is pure dictum . [W]e have written that we are not necessarily bound by dicta should more complete argument demonstrate that the dicta is not correct." *Id.* at 61a-62a.

In a lengthy dissent, Justice Ginsburg, joined by Justice Kennedy and in part by Justice Scalia, disagreed with the majority's interpretation of § 109(a), which Justice Ginsburg found "at odds with Congress' aim to protect copyright owners against the unauthorized importation of low-priced, foreign-made copies of their copyrighted works." Pet. App. 74a (Ginsburg, J. dissenting). Citing the *Quality King* language relied upon by the district court and the Second Circuit, Justice Ginsburg noted the majority "does not deny that under the language I have quoted

from *Quality King*, Wiley would prevail. Nevertheless, the Court dismisses this language, to which all Members of the *Quality King* Court subscribed, as ill-considered dictum." *Id.* at 79a (internal citations omitted). Unlike the majority, Justice Ginsburg found Wiley's position consistent with "what the plain text of the Act conveys: Congress intended § 602(a)(1) to provide copyright owners with a remedy against the unauthorized importation of foreign-made copies of their works, even if those copies were made and sold abroad with the copyright owner's authorization." *Id.* at 95a.

E. Kirtsaeng Seeks Over $2,000,000 in Fees Even Though Kirtsaeng Had No Obligation To Pay Any Of His Supreme Court Counsel's Fees.

Having prevailed in this Court, Kirtsaeng returned to the district court, seeking attorney's fees and the reimbursement of his litigation expenses pursuant to 17 U.S.C. § 505. Under § 505, in any civil action under the Copyright Act, a court "in its discretion may allow the recovery of full costs" and "may also award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505.

Kirtsaeng sought $2,049,753.66 in fees and costs. JA 108. Of that figure, $125,111.12 was attributable to the time and expenses of Sam P. Israel, P.C., Kirtsaeng's counsel before the district court and Second Circuit. JA 108 n.1. The balance – $1,924,642.54 – was for the time and expenses of Orrick, Herrington & Sutcliffe

LLP ("Orrick"), which had represented Kirtsaeng before this Court in *Kirtsaeng I*. JA 108. That figure was more than six times the $300,000 charged by Wiley's Supreme Court counsel in *Kirtsaeng I*, and included, for example, $531,085.25 for time spent soliciting and coordinating amici support from sympathetic business groups, as well as 330.6 hours of argument preparation time for counsel other than the arguing counsel. JA 149, JA 115, JA 96-97; CA2 JA A425.[2]

The fee petition did not include Kirtsaeng's billing arrangements with counsel, and Kirtsaeng refused to voluntarily produce these documents when requested. JA 109. On September 26, 2013, the district court compelled Kirtsaeng and his lawyers to produce documents reflecting their billing arrangements as well as any modifications to those arrangements. Minute Order (Sept. 26, 2013).

On October 9, 2013, Kirtsaeng produced a retainer agreement with Orrick dated November 11, 2011. JA 176. In its letter, Orrick noted its understanding that Kirtsaeng was "not in a position to pay for our services," JA 182, and thus agreed to represent Kirtsaeng "without charge" provided Kirtsaeng agreed "that if the Supreme Court does grant certiorari in this case, we [(*i.e.*, Orrick)] will argue the case on your behalf," JA 182-184.

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[2] Kirtsaeng and Wiley each had 11 amicus briefs filed at the merits stage in support of their respective positions.

This document production was incomplete, however. On October 4, 2013, after the district court had ordered Kirtsaeng to produce his billing arrangements, Kirtsaeng, Orrick, and Israel entered into a new agreement. JA 166-169. This new agreement was not included in the October 9 production, and Wiley first learned of it on November 20, 2013, when the new agreement was attached as an exhibit to Kirtsaeng's reply brief in support of his fee petition. JA171. The new agreement specified, in detail, how any fee award would be divided between Kirtsaeng, Orrick, and Israel. JA 167-168. In brief, the agreement provided that Kirtsaeng would first be reimbursed for any amounts paid to Israel, and the next $200,000 of any recovery would be paid to Israel. JA 167. The remainder of any recovery was to be divided between Israel and Orrick proportionate to the total amount incurred by each firm. *Id.* The letter also provided that "[a]s the likelihood of recovery of fees at the district court level is less than certain and because pursuing this matter to the appellate courts will result in additional expense and attorneys' fees, we [Orrick] retain the right to withdraw from this representation or decide not to take an appeal in this matter should the district court deny our [fees] motion. " JA 168.

F. The District Court Denies The Fee Motion In A Detailed Opinion That Concluded Every Factor Bearing On The Fee Determination Counseled Against Awarding Fees.

Wiley opposed Kirtsaeng's application for fees on numerous grounds, including that it was inconsistent

with § 505 of Copyright Act and *Fogerty*. In a comprehensive opinion, Pet. App. 6a-24a, the district court agreed that no fees were appropriate based on the facts and circumstances of this case.

The district court began by noting this Court's teaching in *Fogerty* that attorney's fees are not mandatory under the Copyright Act, and that a district court should exercise its "equitable discretion" in determining whether an award is warranted. Pet. App. 9a. (quoting *Fogerty*, 510 U.S. at 534). In exercising this discretion, the district court recognized that this Court had approved of the use of various non-exclusive factors to guide a court's discretion, including "[1] frivolousness, [2] motivation, [3] objective unreasonableness (both in the factual and in the legal components of the case) and [4] the need in particular circumstances to advance consideration of compensation and deterrence so long as such factors are faithful to the purposes of the Copyright Act and are applied to prevailing plaintiffs and defendants in an evenhanded manner." *Id.* at 10a (quoting *Fogerty*, 510 U.S. at 534 n.19).

In explaining the applicable legal framework, the district court recognized that, post-*Fogerty*, the Second Circuit "has emphasized in particular the importance of the objective unreasonableness factor," Pet. App. 10a (citing *Matthew Bender & Co. v. West Publ'g Co.*, 240 F.3d 116, 121-22 (2d Cir. 2001)), because litigation in close or novel cases "clarifies the boundaries of copyright law and neither prospective plaintiffs nor prospective defendants should be discouraged from

litigating in such circumstances." *Id.* at 12a (internal quotation mark omitted).

At the same time, the district court emphasized that "[t]here is no precise rule or formula for making these determinations," Pet. App. 9a (quoting *Fogerty*, 510 U.S. at 534), and "that other factors may, in some circumstances, outweigh the objective unreasonableness factor and lead the court to conclude that equity supports a fee award notwithstanding the objective reasonableness of the non-prevailing party," *Id.* at 13a.

Having articulated the legal standard, the district court first found "neither the factual allegations nor the legal theory on which Wiley's claim was based were objectively unreasonable." Pet. App. 12a. It noted that the Second Circuit as well as three Justices of this Court had agreed with Wiley that the first sale doctrine should not have been available to Kirtsaeng as a defense. *Id.* Indeed, Kirtsaeng himself did not dispute that Wiley had advanced an objectively reasonable position on the merits. *Id.*

The district court then devoted the remainder of its opinion to assessing the other factors mentioned by this Court in *Fogerty*, as well as additional considerations urged by Kirtsaeng. Those considerations included:

Frivolousness. The district court held that "[f]or the same reasons that Wiley's claim cannot be said to have been objectively unreasonable, it was clearly not frivolous." Pet. App. 14a

Motivation. The district court found that it had had no reason to doubt respondent's "motivation" – the second factor identified in *Fogerty*. In particular, Wiley's motion to attach Kirtsaeng's personal property "could reasonably have been motivated by a desire to protect the value of a judgment against Kirtsaeng, based on Wiley's belief that Kirtsaeng was withdrawing funds from his bank accounts and transferring title to his property to avoid satisfying a judgment against him." Pet. App. 15a.

Compensation and Deterrence. The district court concluded that neither compensation nor deterrence "weigh in favor of a fee award." Pet. App. 16a. For one, "Kirtsaeng has not in fact paid, and is not obligated to pay, most of the legal fees sought." *Id.* In making this observation, the district court noted that Orrick – which was responsible for the vast majority of the legal fees incurred in this case – had agreed that Kirtsaeng would not be responsible for paying its fees in exchange for Orrick being guaranteed the argument before this Court in the event that the petition in *Kirtsaeng I* were granted. *Id.* Moreover, "Kirtsaeng's need for compensation for his legal defense in this case is tempered by his victory – he may now continue his arbitrage business free of the fear of incurring copyright liability." *Id.* This case was *not* one "where continued litigation may have been uneconomical in the absence of the promise of the fee award." *Id.* at 20a.

Litigation Misconduct. The district court found that Wiley had not "engage[d] in any conduct that equity suggests should be deterred by the threat of a

large fee award." Pet. App. 17a. Rather, respondent had brought an infringement action "based on its belief that, given then-existing legal interpretations of the Copyright Act, Kirtsaeng was infringing on Wiley's rights." *Id.* And, as the district court concluded, actions brought to stop behavior that is recognized under governing law as infringing "should not be deterred." *Id.* (quotation marks omitted).

Clarification of the Law. At Kirtsaeng's request, the district court considered whether fees were warranted due to the fact that *Kirtsaeng I* clarified the boundaries of copyright law. The district court found that this consideration did not counsel in favor of fees because "this result is due as much to Wiley's risk in bringing the claim as to Kirtsaeng's successful defense against it." Pet. App. 18a; *see also* at 18a-19a ("'[B]ecause novel cases require a plaintiff to sue in the first place, the need to encourage meritorious defenses is a factor that a district court may balance against the potentially chilling effect of imposing a large fee award on a plaintiff, who, in a particular case, may have advanced a reasonable, albeit unsuccessful, claim.'" (quoting *Canal+ Image UK v. Lutvak*, 792 F Supp. 2d 675, 683 (S.D.N.Y 2011))).

Prevailing on the Merits. Kirtsaeng argued that he was entitled to fees because "he prevailed on the merits, rather than a technical defense (such as statute of limitations or laches)." The district court found that this factor "d[id] not directly address the interests of copyright law." Pet. App. 21a. After all, "a small success on a technical issue against an objectively

unreasonable claim or defense would warrant compensation and deterrence of similarly unreasonable future litigating positions," while "a high degree of success in a novel or close case with reasonable litigating positions on both sides would *not* warrant a fee award because neither party should be discouraged from litigating in such circumstances." *Id.*

Relative Financial Status. Finally, the district court evaluated the relative financial status of the parties, and found it did not support awarding fees. As the district court explained, "it may be that even a small award against an impecunious party with an unreasonable litigating position may further the Copyright Act's goals by incentivizing reasonableness in copyright litigation or, conversely, that a fee award would not advance the Copyright Act's goals in a case involving a large financial disparity between the parties because, as here, it is important to encourage reasonable claims (regardless of a plaintiff's wealth or poverty) as well as meritorious defenses involving close or novel issues of copyright law." Pet. App. 23a-24a. The district court noted that financial disparity could instead be relevant in determining the quantum of fees where an award was justified. *Id.* at 23a.

In sum, having considered various equitable factors including, but also going far beyond, the reasonableness of the parties' litigating positions, the district court determined that a fee award was not appropriate. Pet. App. 24a.

G. The Second Circuit Affirms the Denial Of Fees As Appropriate In Light Of All The Relevant Considerations.

In an unpublished order, the Second Circuit affirmed. *See John Wiley & Sons, Inc. v. Kirtsaeng*, 605 Fed. App'x 48, 50 (2d Cir. 2015), Pet. App. 5a. Quoting *Fogerty*, the court of appeals began by noting that the district court was "not bound by any 'precise rule or formula' when evaluating whether an award of fees is warranted," but rather "'equitable discretion should be exercised in light of the [relevant] considerations.'" Pet. App. 3a (quoting *Fogerty*, 510 U.S. at 534 & n.19 (alterations in original)). The court of appeals held that the district court "properly placed 'substantial weight' on the reasonableness of John Wiley & Sons' position in this case," noting "'the imposition of a fee award against a copyright holder with an objectively reasonable litigation position will generally not promote the purposes of the Copyright Act.'" *Id.* at 4a (quoting *Matthew Bender*, 240 F.3d at 122).

The court of appeals found "no merit to the appellant's contention that the district court 'fixated' on John Wiley & Sons' objective reasonableness at the expense of other relevant factors. To the contrary the district court expressly recognized that *Matthew Bender* 'reserved a space for district courts to decide that other factors may outweigh the objective unreasonableness factor.'" Pet. App. 4a (citation omitted). While perhaps not agreeing "in every instance with the district court's evaluation of these

other factors," the court of appeals saw "no abuse of discretion in the district court's overall conclusion that, in the circumstances of this case, these factors did not outweigh the 'substantial weight' afforded to John Wiley & Sons' objective reasonableness." *Id.* at 5a.

SUMMARY OF ARGUMENT

I. Section 505 of the Copyright Act provides that district courts "may .. award a reasonable attorney's fee to the prevailing party" in a suit under the Copyright Act. 17 U.S.C. § 505. The Second Circuit's standard for awarding fees under § 505 furthers the goals of the Copyright Act as articulated by this Court, and as applied in the careful decision of the district court.

A. There was a long and settled practice of treating objective reasonableness as the preeminent consideration in the decision to award attorney's fees in copyright suits under the 1909 Copyright Act. Under the 1909 Act, fees were almost never awarded where the losing party had taken a reasonable position. Congress was well aware of this practice when it enacted the 1976 Copyright Act, and it incorporated the 1909 Act's fee language nearly verbatim into § 505. Congress is thus presumed to have intended § 505 to continue the settled practice of giving substantial weight to objective reasonableness.

B. Giving substantial weight to objective reasonableness is also consistent with *Fogerty*, this Court's leading case on § 505.

1. In *Fogerty*, this Court held that a fee determination under § 505 should not turn on whether the prevailing party was the plaintiff or the defendant. The Court further held that § 505 was not intended to adopt the British Rule, in which a prevailing party was presumptively entitled to fees, absent special circumstances.

Instead, the Court explained, a district court should exercise its discretion under § 505 to award fees where doing so would further the goals of the Copyright Act. One of those goals was to prevent infringement. But another was copyright law's peculiarly strong interest in clarity such that authors and the public alike could know whether a work was protected. The Court further endorsed a short list of non-exclusive factors that district courts could use in making fee determinations. Two of the four factors concerned the reasonableness of the losing party's position: objective reasonableness and frivolousness.

2. The Second Circuit's approach to fee awards follows *Fogerty* in every respect. In the Second Circuit, fee awards are assessed on a case-by-case basis in light of all relevant factors. The objective reasonableness of the losing party's position is given substantial weight in that totality-of-the-circumstances analysis.

That emphasis on objective reasonableness comports particularly well with *Fogerty*. Most obviously, of the four factors that *Fogerty* cited with approval, one of them was objective reasonableness,

and another was the related concept of frivolousness. Moreover, *Fogerty* recognized that there was a long tradition of not awarding fees in copyright suits where the losing party had taken a reasonable position. It cannot be wrong for a court to emphasize a factor that this Court did.

A focus on objective reasonableness also ensures that parties have the right incentive to litigate cases and thereby serve the Copyright Act's interest in clarifying the law. In close cases – *i.e.*, the cases in which there is the greatest public interest in clarifying the law – both sides by definition will have reasonable positions. Imposing the threat of attorney's fees will make litigation more risky and expensive, and thus will reduce the chance that the parties will litigate those close cases to final judgment (let alone through appellate review).

Objective reasonableness is equally important in cases where a party is pressing a weak claim or defense. In those cases, the law is already clear, and so the threat of fees will discourage parties from taking weak positions, and ultimately compensate prevailing parties for having to litigate if the unreasonable party persists in its position.

C. Kirtsaeng's criticisms of the Second Circuit's approach are misguided and rely on misstatements or selective quotation of sources.

1. First, Kirtsaeng is wrong when he suggests that the Second Circuit's approach improperly "pretermits" the district court's exercise of discretion. It is not

inappropriate for an appellate court to channel a district court's discretion so that it serves the values that this Court held are important. *Fogerty* tells district courts to award fees where it would further the goals of the Copyright Act, namely the "peculiarly important" interest in clarifying the law. Giving substantial weight to objective reasonableness serves that goal. Nor is Kirtsaeng correct when he suggests that the Second Circuit is out of step with other courts. As the leading treatise explains, the practice in courts today is that fees will not typically be awarded where the losing party has not advanced a frivolous or objectively unreasonable claim.

In any case, Kirtsaeng is simply wrong when he caricatures the Second Circuit as ignoring any consideration other than objective reasonableness. The Second Circuit is perfectly clear that although objective reasonableness is given substantial weight, other factors can carry the day. The very cases Kirtsaeng cites as exhibiting this supposed flaw expressly took account of other factors.

Indeed, there is no clearer example than *this* case to demonstrate that the Second Circuit's test looks beyond objective reasonableness. In a lengthy discussion, the district court explained that there could well be cases in which the need to compensate or otherwise reward a prevailing defendant could outweigh the objective reasonableness of the losing plaintiff's position. But this was not one of those cases because Kirtsaeng had nothing to lose and everything to gain by continuing to litigate. He had transferred his

assets out of the country and was receiving millions of dollars in legal services from his Supreme Court counsel who were willing to provide those services for free in exchange for the right to argue Kirtsaeng's case. And by winning, Kirtsaeng was able to continue his successful arbitrage business. Conversely, Wiley had nothing to show for having taken an eminently reasonable legal position except its own legal bills. The district court's analysis was thus not "pretermitted," but rather both comprehensive and correct in concluding that fees were not warranted based on the totality of facts and circumstances of this case.

2. Kirtsaeng is also mistaken when he contends that the Second Circuit's approach favors prevailing plaintiffs over prevailing defendants in violation of *Fogerty*. The sole study Kirtsaeng relies upon concludes – in a passage not fully quoted by Kirtsaeng – that "*Fogerty*'s effect has been the most pronounced in the [Second Circuit]," where rate of fee awards to prevailing defendants jumped from 12.5% prior to *Fogerty* to 80% after the decision was issued.

II. Kirtsaeng's proposed theory of fees would displace a factor – objective reasonableness – that has been at the heart of the copyright fee award analysis for more than a century with a newly fashioned factor – "jurisprudential importance" – that would frustrate the goals of copyright law, violate this Court's teachings in *Fogerty*, and present serious problems of administrability to boot. This Court should reject it.

A. Making the importance of the case the North Star of the fee inquiry hinders rather than furthers the goals of the Copyright Act. It is precisely in the important cases that both sides are likely to have reasonable positions on an undecided issue of law. Saddling the losing party with attorney's fees despite having advanced a reasonable position makes it less, not more, likely that the parties will litigate their claims to final judgment. Tellingly, the exemplar cases that Kirtsaeng points to as adopting his rule give substantial weight to the objective reasonableness of the losing claim. Kirtsaeng's rule is also self-serving. As a prevailing party, he can look back in retrospect and argue that the importance of the case warrants fees. But at the time of the merits litigation, an emphasis on objective reasonableness allowed Kirtsaeng to litigate and appeal that important issue with the confidence that he likely would not have to pay Wiley's attorney's fees even if he lost on the merits.

B. Kirtsaeng's rule also violates *Fogerty*'s command by effectively implementing the British Rule for fees. Kirtsaeng concedes that fees are generally warranted where a litigant prevails over a weak position. But he also believes that the litigant who prevails in an important case – which by definition is likely to have reasonable arguments on both sides – is entitled to fees. A rule that awards fees to the prevailing party regardless whether the losing party's position was weak or strong is tantamount to the British Rule explicitly rejected in *Fogerty*.

C. Premising fees on the importance of the case also presents formidable administrative difficulties. Courts are well trained to assess the reasonableness of a party's claims. It is far more difficult to assess whether a case is of "seismic significance." That subjective inquiry, to the extent that it could be carried out at all, typically could not be reliably made until long after the suit has finished.

The judgment below should be affirmed.

ARGUMENT

I. Section 505 Is Properly Interpreted To Give Substantial Weight To Objective Reasonableness.

A. Courts have long given objective reasonableness substantial weight in determining whether to award fees in copyright suits, and Congress intended to continue that practice in Section 505.

Section 505 provides that in awarding costs, "the court may also award a reasonable attorney's fee to the prevailing party as part of the costs." 17 U.S.C. § 505. That provision was carried over almost verbatim from the 1909 Copyright Act, which provided that "the court may award to the prevailing party a reasonable attorney's fee as part of the costs." Copyright Act of 1909, § 40, 35 Stat. 1075, 1084.

Courts under the 1909 Act gave substantial – indeed frequently dispositive – weight to the objective reasonableness of the losing party's position in

assessing whether fees were warranted. *See, e.g., Eisenschiml v. Fawcett Publ'ns, Inc.*, 246 F.2d 598, 604 (7th Cir. 1957) (reversing fee award as abuse of discretion because "a very close question was involved, and we hold that plaintiff should not be assessed attorney fees for trying to protect the copyright on his books"); *Morse v. Fields*, 127 F Supp. 63, 69 (S.D.N.Y. 1954) ("In the exercise of my discretion I shall deny counsel fee The plaintiff's claim was not capricious or unreasonable and I have reached my conclusion only after a thorough and difficult consideration of the evidence and the multitude of inferences to be drawn therefrom which were strongly advocated by both sides." (internal citation omitted)).[3] In light of this case

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[3] Other examples are legion. *E.g., Edward B. Marks Music Corp. v. Continental Record Co.*, 222 F.2d 488, 493 (2d Cir. 1955) ("[I]n copyright cases such an allowance is within our discretionary power, 17 U.S.C. § 116, we feel that in this case the unsuccessful litigant should not thus be penalized. The litigation which it instituted was not vexatious but involved a novel question of statutory interpretation."); *Overman v. Loesser*, 205 F.2d 521, 524 (9th Cir. 1953) ("The case was hard fought. There is no indication that the appeal was pursued in bad faith. And the principal question before us presented a complex question of law."); *Alfred Bell & Co. v. Catalda Fine Arts*, 191 F.2d 99, 106 (2d Cir. 1951) (affirming award of fees in a case of "[o]pen and unabashed piracy" where defendants' arguments were deemed "irrelevant" and clearly refuted by the record); *Official Aviation Guide Co. v. Am. Aviation Assocs.*, 162 F.2d 541, 543 (7th Cir. 1947) (same); *Cloth v. Human*, 146 F. Supp. 185, 193 (S.D.N.Y. 1956) ("An attorney's fee is properly awarded when the infringement action has been commenced in bad faith, as where the evidence establishes that the plaintiff's real motive is to vex and harass the defendant or where plaintiff's claim is so lacking in merit as to present no arguable

law, the leading copyright treatise concluded that under the 1909 Copyright Act:

> [A]n attorney's fee will not be awarded if the losing party was driven to litigation by an overtechnical position taken by the prevailing party, *or if a novel or complex question of law is involved and the losing party is acting in good faith.* One court has taken the position that if only a portion of the legal services for the prevailing party were rendered because of an unreasonable position taken by the losing party, then the award of an attorney's fee should be commensurately apportioned.

Melville B. Nimmer, Nimmer on Copyright § 161, at 705 (1964) (emphasis added) (footnotes omitted); *see also* 2 Melville B. Nimmer, Nimmer on Copyright § 161, at 706-706.1 (1972) (same).

When Congress was considering the 1976 Copyright Act, it was well aware that objective reasonableness was a central focus of the fee award inquiry under the 1909 Act. For one thing, Congress is presumed to know the settled state of the law when it legislates.

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question of law or genuine issue of fact."); *Rose v. Connelly*, 38 F. Supp. 54, 55-56 (S.D.N.Y. 1941) (awarding attorney's fees when a plaintiff's claims were "quite fantastic" in that under plaintiff's theory "hardly any drama since the Garden of Eden could survive the charge of plagiarism").

See, e.g., Miles v. Apex Marine Corp., 498 U.S. 19, 32 (1990). Moreover, as this Court explained in *Fogerty*, when "Congress [was] studying revisions to the Act" the Copyright Office provided Congress with "two studies" regarding the operation of the 1909 attorney's fee provision. *See Fogerty*, 510 U.S. at 528-533. One of those studies concluded after a review of the case law that fee awards were typically premised on the reasonableness of the losing party's position:

> [C]ourts do not usually make an allowance at all if an unsuccessful plaintiff's claim was not "synthetic, capricious, or otherwise unreasonable" or if the losing defendant raised real issues of fact or law.

Ralph S. Brown, Jr., *The Operation of the Damage Provisions of the Copyright Law: An Exploratory Study, in Subcomm. on Patents, Trademarks, and Copyrights of the S. Comm. on the Judiciary*, 86th Cong., 2d Sess. 59, 85 (Comm. Print, Copyright Law Revision Study No. 23, 1960) (hereinafter Brown Study). The Brown Study went on to add that

> Several experienced practitioners said that they seldom received fee allowances, nor were their clients compelled to pay allowances, because the only cases they took to court involved unsettled questions of law or fact, and they did not expect the court to make an allowance to either side.

Id.[4]

Given that Congress is presumed to have known – and was actually affirmatively informed of – the "settled practice" of courts emphasizing objective reasonableness in applying the 1909 fee provision, Congress's decision to leave the fee provision essentially unchanged in the 1976 Act indicates that Congress intended that practice to continue. *Lorillard v. Pons*, 434 U.S. 575, 580 (1978) ("Congress is presumed to be aware of an administrative or judicial interpretation of a statute and to adopt that interpretation when it re-enacts a statute without change "); *Miles*, 498 U.S. at 32 (when Congress incorporates existing language "unaltered" into new statute, Congress s presumed to incorporate the judicial "gloss" on the predecessor statute as well) (citing *Cannon v. Univ. of Chicago*, 441 U.S. 677, 696-97 (1979)); *Fogerty*, 510 U.S. at 527-28 (looking to pre-1976 practice to determine the meaning of § 505 (citing *Lorillard*)).

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[4] The other study submitted by the Copyright Office treated the issue of attorney's fees only briefly, but it confirms that the pre-1976 practice made objective reasonableness a key criterion. The study noted that the 1909 Act committed the decision to award fees to the discretion of district courts and that "[t]he cases indicate that this discretion has been judiciously exercised." William S. Strauss, *The Damage Provisions of the Copyright Law, in Subcomm. on Patents, Trademarks, and Copyrights of the S. Comm. on the Judiciary*, 86th Cong., 2d Sess. 1, 31 (Comm. Print, Copyright Law Revision Study No. 22, 1960). The cases cited by the Strauss Study as exemplifying that judicious discretion include *Overman* and *Official Aviation Guide* cited above. *See supra* n.3.

The history of § 505 thus indicates that Congress intended objective reasonableness continue to play a central role in the fee award calculus.

B. Giving substantial weight to objective reasonableness furthers the goals of the Copyright Act as illuminated by *Fogerty*.

This Court's leading case on § 505, *Fogerty*, further confirms that objective reasonableness is appropriately given substantial weight in determining whether a fee award is appropriate.

1. In *Fogerty*, the Court began by explaining how a district court should *not* approach § 505. It would be incorrect, the Court held, for a district court to base its fee decision on whether the prevailing party was a plaintiff or a defendant. Section 505 "gives no hint" that the status of the prevailing party matters. *Fogerty*, 510 U.S. at 522. The Court also rejected interpreting § 505 as adopting the British Rule in which "attorney's fees [are awarded] as a matter of course, absent exceptional circumstances" in copyright suits. *Id.* at 533. The Court explained that § 505 provides courts "may" award fees, and that the "word 'may' clearly connotes discretion" to award fees rather than a command to do so. *Id.* Had Congress intended the "bold departure" of adopting the British Rule, it would have said so "explicit[ly]." *Id.* at 534.

Instead, the Court explained, a court's decision to award fees should turn on whether doing so would serve the goals of the Copyright Act. Here, the Court noted that "discourag[ing] infringement" was an

important goal of the Copyright Act, albeit not the only goal. *Id.* at 526. The Court emphasized that the Copyright Act seeks a "balance" between encouraging the creation of works by protecting the rights of authors while also allowing the public to benefit from works not protected by copyright. *Id.* (quotation marks omitted). In light of these competing interests, the Court emphasized that "it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible," and that fees should be awarded in a way that encourages parties to litigate claims to provide that clarity to the public. *Id.* at 527.

In a much-cited footnote, *Fogerty* then observed that certain nonexclusive factors could be used to guide a district court's discretion in awarding fees. *See id.* at 534 n.19. Those factors include "frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Id.* (quoting *Lieb v. Topstone Indus., Inc.*, 788 F.2d 151, 156 (3d Cir. 1986)). The Court approved the use of those factors to guide district courts' discretion provided "such factors are faithful to the purposes of the Copyright Act and are applied to prevailing plaintiffs and defendants in an evenhanded manner." *Id.*

2. The Second Circuit's approach to fee awards in copyright litigation perfectly tracks the guidance provided by *Fogerty*. In the Second Circuit's formulation, "[t]here is no precise rule or formula for making [attorney's fees] determinations." Pet. App. 9a

(quotation marks omitted). Instead, "equitable discretion should be exercised" and the objective reasonableness of the losing party's position may be given "substantial weight" in making that equitable determination. *Id.* (quotation marks omitted).

Placing substantial weight on the objective reasonableness of the losing party's position "serves the goals of the Copyright Act." Most obviously, of the four factors that this Court highlighted in *Fogerty* as guiding a district court's discretion to award fees, two of them concerned the reasonableness of the losing party's position: "objective unreasonableness (both in the factual and in the legal components of the case)" and "frivolousness." Pet. App. 10a (quotation marks omitted). It would be bizarre to conclude after this Court *twice* emphasized the relevance of objective reasonableness – even in a non-exhaustive list of factors – that district court would be wrong to give substantial weight to that factor.[5]

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[5] Nor is it surprising that the Court emphasized objective reasonableness in its non-exhaustive list of factors given the historical centrality of the factor in copyright fee awards, *see supra*, and the prominence of the reasonableness inquiry in other fee award contexts. *See Martin v. Franklin Capital Corp.*, 546 U.S. 132, 141 (2005) ("Absent unusual circumstances, courts may award attorney's fees under § 1447(c) only where the removing party lacked an objectively reasonable basis for seeking removal."); *Cloer v. Sec'y of Health & Human Servs.*, 675 F.3d 1358, 1362 (Fed. Cir. 2012) ("Attorney's fees should be denied [under the Vaccine Act, 42 U.S.C. § 300aa-15(e) where] the petition was not brought in good faith [or] there was [no]

Indeed, *Fogerty* itself expressly cited the conclusion in the Brown Study that under the materially identical 1909 Act "courts do not usually make an allowance at all if an unsuccessful plaintiff's claim was not 'synthetic, capricious or otherwise unreasonable,' or if the losing defendant raised real issues of fact or law." *Fogerty*, 510 U.S. at 528 & n.16 (quoting Brown Study at 85 and citing illustrative pre-1976 caselaw). While *Fogerty* noted that this conclusion indicated that there was no settled practice of treating prevailing plaintiffs and defendants differently, *id.*, it also makes plain that *Fogerty* understood and accepted that there *was* a settled practice under the Copyright Act of not generally awarding fees against objectively reasonable positions.

But there is a deeper connection between the reasonableness of the losing party's position and the goals of the Copyright Act in the context of fee awards. Giving substantial weight to the reasonableness of the

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reasonable basis for the claim for which the petition was brought.") *aff'd sub nom. Sebelius v. Cloer*, 133 S. Ct. 1886 (2013); *Burka v. U.S. Dep't of Health & Human Servs.*, 142 F.3d 1286, 1288 (D.C. Cir. 1998) (noting that among the factors a court considers when determining whether to award attorney's fees to a prevailing complainant under the Freedom of Information Act, 5 U.S.C. § 552(a)(4)(E) is whether the government had a "reasonable basis for withholding requested information" (quotation marks omitted)); *Griffon v. U.S. Dep't of Health & Human Servs.*, 832 F.2d 51, 53 (5th Cir. 1987) (declining to award fees under the Equal Access to Justice Act, 28 U.S.C. § 2412 upon finding the government's position was "substantially justified" because the questions presented were "both novel and difficult").

losing party's position helpfully *encourages* litigation of the hard and close questions of copyright law that are important to resolve. At the same time, it appropriately *discourages* litigation of weak claims and defenses for which the answer under the Copyright Act is clear.

As this Court has explained, awarding fees to a prevailing party increases the risk associated with litigation, and thus chills litigation to the extent that a party's chance of prevailing is uncertain or doubtful. *See, e.g.*, *Cooter & Gell v. Hartmax Corp.*, 496 U.S. 384, 408 (1990) (holding that a district court may not impose attorney's fees as a result of an appeal of a Rule 11 sanction because such an award "would be likely to chill all but the bravest litigants from taking an appeal"). That is why it is well-documented that the British Rule discourages litigation where a party has reason to believe that it may not prevail. *E.g.*, Richard A. Posner, *An Economic Approach to Legal Procedure and Judicial Administration*, 2 J. Legal Stud. 399, 428 (1973) (the British Rule raises the stakes for parties involved in litigation and thus "the expected value of litigation [is] less for risk-averse litigants, which will encourage settlements if risk aversion is more common than risk preference"); Thomas D. Rowe, Jr., *Predicting the Effects of Attorney Fee Shifting*, 47 Law & Contemp. Probs., 139, 159 (1984) ("[A]dding the possibility of a fee shift against individual litigants relying on their own resources might well result in a greater tendency to settle claims once pursued than exists under the American rule.").

But it is precisely in the close cases of copyright law that there is a "peculiarly important" need to encourage litigation so that the law can be "demarcated." *Fogerty*, 510 U.S. at 1030. Resolution of close cases lets authors create with confidence and the public know which works can be used without fear of an infringement claim. *Id.*; *see also e.g.*, *Cmty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 749 (1989) ("Congress' paramount goal in revising the 1976 Act [was] enhancing predictability and certainty of copyright ownership . . ."); *Lotus Dev. Corp. v. Borland Int'l, Inc.*, 140 F.3d 70, 75 (1st Cir. 1988) ("When close infringement cases are litigated, copyright law benefits from the resulting clarification of the doctrine's boundaries."). If parties in those close cases know, however, that they will have to pay fees if their opponent's (by definition) reasonable position turns out to be successful, they will be less likely to litigate those cases to final judgment (let alone through appellate review so that the broader public may benefit). Conversely, an emphasis on objective reasonableness appropriately *discourages* litigants from pursuing claims and defenses that are weak under copyright law, and for which the law is already "demarcated." *See, e.g.*, *Mahan v. Roc Nation, LLC*, No. 15-1238-CV, -- F App'x --, 2016 WL 730653, at *2 (2d Cir. Feb. 24, 2016) (finding an award of attorney's fees "would further the objectives of the Copyright Act by deterring such baseless appeals").

"This is not to say that a finding of objective reasonableness necessarily precludes the award of fees." *Matthew Bender & Co. v. West Publ'g Co.*, 240

F.3d 116, 122 (2d Cir. 2001). As the Second Circuit has recognized, there may well be cases where other factors counsel in favor of a fee award. If a district court finds those other factors to be present and of significance, then a fee award may be appropriate. As discussed further below, the Second Circuit's approach serves the goals of the Copyright Act by encouraging the litigation of close questions of copyright law while also giving district courts the flexibility to decide whether fees are warranted as the totality of the circumstances dictate.

C. Kirtsaeng's criticisms of *Matthew Bender* are without basis.

Kirtsaeng does not argue that an emphasis on the objective reasonableness of a losing party's position disserves the purposes of the Copyright Act, nor does he contest that placing substantial weight on that factor will incentivize plaintiffs and defendants to fully litigate exactly the claims that will serve to clarify the boundaries of copyright law. Rather, Kirtsaeng argues that "*Matthew Bender* is fundamentally at odds with *Fogerty* and its reading of the statutory text in two ways: (a) it improperly pretermits district court discretion; and (b) it flouts *Fogerty's* evenhandedness requirement." Br. of Pet'r 22. Kirtsaeng is wrong on both counts.

1. Kirtsaeng's "pretermit" criticism is misguided and inaccurate.

Kirtsaeng first claims that giving substantial weight to objective reasonableness "interferes with the case-

by-case exercise of discretion that *Fogerty* demands" and wrongly "pretermits district court discretion." Br. of Pet'r 23. Kirtsaeng's critique is wrong both in theory and in fact.

1. An appellate court does not err by channeling the discretion of a district court to ensure that Congress's intent is carried out. *This* Court has held that district courts should exercise their discretion in awarding fees to further the goals of the Copyright Act, and the Second Circuit's guidance is wholly consistent with that directive. *Cf. Martin v. Franklin Capital Corp.*, 546 U.S. 132, 139 (2005) ("Discretion [in awarding attorneys fees] is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike.").

Kirtsaeng also claims "[e]levating one consideration above all others is, in and of itself, improper under *Fogerty*," Br. of Pet'r 24. Even if that were the practice at issue here (and it is not), Kirtsaeng's claim is notably bereft of any citation to *Fogerty*. The reason for this omission is simple: *Fogerty* did not provide that each factor it identified must rotely be given equal weight in every case. Rather, the only direct guidance *Fogerty* provided was that the factors in footnote 19 (and potentially others) must be applied in an evenhanded manner, consistent with the purposes of the Copyright Act. *See Fogerty*, 510 U.S. at 534 n.19.

Nothing in *Matthew Bender* is inconsistent with that requirement.[6]

Nor is Kirtsaeng correct when he suggests that the Second Circuit's approach to objective reasonableness is out of step with the practice of other circuits. Although they differ in their precise formulations, objective reasonableness is the most common criterion in the fee inquiry across the Courts of Appeals.[7] As the

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[6] Kirtsaeng's critique is also incoherent given that he also urges the Court to emphasize a particular factor – the importance of the case – in the fee analysis. *See infra* Part II.

[7] *See, e.g., Garcia-Goyco v. Law Envtl. Consultants, Inc.*, 428 F.3d 14, 20 (1st Cir. 2005) ("In the past, this court has applied the *Fogerty* factors in affirming awards of attorney's fees where the plaintiff's copyright claim was neither frivolous nor instituted in bad faith. Thus, the award of fees has been approved where the claim was 'objectively weak.'"); *T.D.D. Enters., Inc. v. Yeaney*, 83 F. App'x 492, 494 (3d Cir. 2003) (affirming an award of attorney's fees where the losing party "lacked an objectively reasonable or good-faith basis" for its argument); *Diamond Star Bldg. Corp. v. Freed*, 30 F.3d 503, 506 (4th Cir. 1994) ("[W]hen a party has pursued a patently frivolous position, the failure of a district court to award attorney's fees and costs to the prevailing party will, except under the most unusual circumstances, constitute an abuse of discretion."); *Action Tapes, Inc. v. Mattson*, 462 F.3d 1010, 1014 (8th Cir. 2006) (affirming a denial of attorney's fees because the losing party "raised important and novel issues under [a] seldom-litigated" statutory provision); *Seltzer v. Green Day, Inc.*, 725 F.3d 1170, 1181 (9th Cir. 2013) (reversing the grant of attorney's fees in "a close and difficult case," where the losing plaintiff's arguments were not objectively unreasonable); *Meshwerks, Inc. v. Toyota Motor Sales, U.S.A., Inc.*, 528 F.3d 1258, 1270 n.11 (10th Cir. 2008) (denying a request for attorney's fees because "[f]ar from being frivolous, this suit presents a novel and consequential question

leading treatise puts it, "there is typically no award of fees in cases involving issues of first impression or advancing claims that were neither frivolous nor objectively unreasonable." 4 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 14.10[D][3][b] at 14-232 (2015) (footnote omitted).

2. In any case, Kirtsaeng is simply mistaken when he paints the Second Circuit as making a "fetish" of objective reasonableness at the expense of all other considerations. Br. of Pet'r 24. And he is wrong again when he seeks to equate the Second Circuit's approach with the Federal Circuit's "overly rigid inflexible framework," for awarding fees under the Patent Act that this Court rejected in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). Br. of Pet'r 23. In *Octane Fitness*, the Federal Circuit had not only required "objective baselessness" in all cases but also that the losing party had acted in "subjective bad faith." 134 S. Ct. at 1754. Absent both elements, no fee award was permitted, regardless of any other countervailing factor. *Id.*

The Second Circuit, in contrast, has a flexible standard in which "the presence of other factors might justify an award of fees despite a finding that the

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focused on the copyrightability of images in a relatively new technological medium"); *MiTek Holdings, Inc. v. Arce Eng'g Co.*, 198 F.3d 840, 842-43 (11th Cir. 1999) ("The touchstone of attorney's fees under § 505 is whether imposition of attorney's fees will further the interests of the Copyright Act, *i.e.*, by encouraging the raising of objectively reasonable claims and defenses. .").

nonprevailing party's position was objectively reasonable." *Matthew Bender*, 240 F.3d at 122. Bad faith by itself, for example, may justify fees in an appropriate case (although unlike the Federal Circuit's test, it is not necessarily required).[8] *See, e.g., id.* ("[B]ad faith in the conduct of the litigation is a valid ground for an award of fees."); *Protoons Inc. v. Reach Music Publ'g, Inc.*, No. 09 CIV 5580 (KBF), 2016 WL 680543, at *9 (S.D.N.Y Feb. 19, 2016) (awarding fees under § 505 because "[t]he fees award will discourage bad faith attempts to undercut contractual transfers of property rights").

The very cases Kirtsaeng cites as examples of defendants being denied attorney's fees "based solely on the determination that the losing plaintiff's position was objectively reasonable" prove that his depiction of the Second Circuit is incomplete. Br. of Pet'r 24 & n.2. In every one of those cases, the courts addressed the effect of other considerations, like subjective bad faith and deterrence, just as *Fogerty* recommended. In one of the cases, the Second Circuit found that fees were warranted even though it concluded that the district

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[8] Nor for that matter does the Second Circuit insist that a litigation position be "baseless" to award fees. *E.g. Medforms, Inc. v. Healthcare Mgmt. Sols., Inc.*, 290 F.3d 98, 117 (2d Cir. 2002) (affirming denial of fee award in part because the claims were not "frivolous *or* objectively unreasonable" (emphasis added)).

court was *wrong* to have found that the losing party's conduct was objectively unreasonable.[9]

3. Indeed, the clearest proof that Kirtsaeng mischaracterizes the practice in the Second Circuit comes from this very case. Kirtsaeng contends the district court's focus on objective reasonableness caused it to "devote[] less than a sentence to Kirtsaeng's substantive positions, the result he obtained, the victory's wide-ranging impact, and the financial imbalance he confronted." Br. of Pet'r 3. The reality is that the district court devoted nearly a dozen pages to considerations other than objective reasonableness (reproduced at Pet. App. 14a-24a) and found them wanting on their own terms.

The district court did not dispute that there *could* be a case where the promise of a fee award would incentivize a litigant to pursue a defense through final

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[9] *See Viva Video, Inc. v. Cabrera*, 9 F. App'x 77, 80 (2d Cir. 2001) (affirming in part a grant of attorney's fees, but holding that the district court had wrongly found the plaintiff's conduct to be "objectively unreasonable" and that the conduct was instead in "bad faith"); *Arista Records, LLC v. Launch Media, Inc.*, 344 F. App'x 648, 650-51 (2d Cir. 2009) (considering all four *Fogerty* factors in affirming a denial of attorney's fees); *Lava Records, LLC v. Amurao*, 354 F. App'x 461, 462 (2d Cir. 2009) (noting various factors, including the plaintiff's efforts to terminate the case quickly once it became clear defendant had not personally committed copyright infringement, in affirming a denial of attorney's fees); *Medforms, Inc.*, 290 F.3d at 117 (explaining that district court had applied the "*Fogerty* factors" and did not abuse its discretion).

judgment, but it found that "the facts of this case suggest otherwise." Pet. App. 19a. Kirtsaeng's defense "against Wiley's claim was not threatened by high litigation costs because the novelty and potential importance of his case attracted offers of *pro bono* representation without any contingency or provision for a prospective fee award." *Id.* at 20a. As the record shows, Orrick was eager to represent "without charge" a client who had transferred his assets outside the country, so long as Orrick could "argue the case" in the Supreme Court. JA 182.

Kirtsaeng also had a powerful financial incentive to litigate his case. As the district court held, "a successful defense resting on the first sale doctrine would permit Kirtsaeng to continue his arbitrage business free of the threat of future copyright liability." Pet. App. 20a. That kind of payoff "distinguishe[d] this case from one where continued litigation may have been uneconomical in the absence of the promise of a fee award."[10] *Id.*

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[10] Kirtsaeng repeatedly accuses Wiley, a venerable publisher, of acting improperly by seeking to protect its intellectual property (and that of its authors) through the courts. *See* Br. of Pet'r 6 n.1; *id.* at 31 n.4. But it is entirely proper for Wiley, like any other author and publisher, to seek redress when it has a reasonable belief that infringers are using those works without permission.

In addition, Kirtsaeng's unsupported reference to the alleged "bit players," Br. of Pet'r 6, against whom Wiley allegedly litigates is not only inaccurate – many of these defendants were earning a substantial income from Wiley's and other publishers' intellectual property – but misguided. Even assuming that some defendants

Put simply, Kirtsaeng had nothing to lose and everything to gain in pursuing this case. In terms of downside risk, he was judgment-proof having transferred the bulk of his assets out of the country. And he was receiving millions of dollars of free legal assistance that would help him continue his successful arbitrage business. Wiley, on the other hand, had done nothing more than advance a highly reasonable position that clarified the law (in a manner that Wiley opposed), and for which it had already paid a substantial amount of attorney's fees to its own counsel at three (and now six) different levels of adjudication. In reaching its conclusion that fees should not be awarded, the district court did not "pretermit" its reasoning. Br. of Pet'r 23. Instead, the district court reviewed every conceivable factor just as the Second Circuit had directed, and it found no justification for fees based on the particular facts and circumstances of this case.

In sum, the Second Circuit's approach to fees marries an emphasis on objective reasonableness to a full-fledged assessment of other considerations based on the facts and circumstances of the particular case. That approach is wholly faithful to *Fogerty* and § 505.

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were impecunious, it is *Kirtsaeng's* rule – which would allow for fees against the losing party in a close case – that would expose them to liability for attorney's fees if they had taken reasonable but unsuccessful positions.

2. Kirtsaeng's evenhandedness criticism is also wrong.

Kirtsaeng also claims that *Matthew Bender* "contravenes *Fogerty*'s evenhandedness principle by treating plaintiffs and defendants differently. Br. of Pet'r 27. But in *Matthew Bender*, the Court of Appeals expressly mandated that "the standard governing the award of attorneys' fees under section 505 *should be identical* for prevailing plaintiffs and prevailing defendants." 240 F.3d at 121 (emphasis added).

Undeterred, Kirtsaeng seizes on *Matthew Bender*'s statement that the principal purpose of the Copyright Act is "to encourage the origination of creative works by attaching enforceable property rights to them." *Id.* at 122 (quotation marks omitted). Kirtsaeng is correct that an equally important purpose is to "enrich[] the general public through access to creative works," Br. of Pet'r 28 (quoting *Fogerty*, 510 U.S. at 527), but he fails to mention that the Second Circuit has repeatedly recognized this very purpose in the context of fee awards. *See, e.g., Swatch Grp. Mgmt. Servs. Ltd. v. Bloomberg L.P.*, 756 F.3d 73, 91 (2d Cir. 2014) ("[W]hile the immediate effect of our copyright law is to secure a fair return for an author's creative labor, the ultimate aim is, by this incentive, to stimulate creativity for the general public good." (internal quotation marks omitted)); *Bill Graham Archives v. Dorling Kindersley Ltd.*, 448 F.3d 605, 612 (2d Cir. 2006) ("[C]reative expression for public dissemination falls within the core of the copyright's protective purposes." (quoting

Campbell v. Acuff-Rose Music, Inc., 510 U.S. 569, 586 (1994))).

Equally incorrect is Kirtsaeng's selective quotation of statistics in attempting to document how the Second Circuit has applied § 505 after *Fogerty*. Kirtsaeng comments that "[o]ld habits die hard" because plaintiffs are awarded fees 89% of the time when they are requested while defendants are awarded them 61% of the time. Br. of Pet'r 29 (citing Jeffrey Edward Barnes, *Attorney's Fee Awards in Federal Copyright Litigation After* Fantasy, 47 UCLA L. Rev. 1381, 1390 (2000)). What Kirtsaeng ignores is that on the very same page that these figures are reported, the study notes that "*Fogerty* has, however, had a dramatic impact on the frequency that fee awards are granted to prevailing defendants," from 16% of requests prior to *Fogerty* to 61% after the decision was issued. Barnes, *supra* at 1390.

Moreover, the same study Kirtsaeng relies upon observes "*Fogerty*'s effect has been *most* pronounced in the U.S. Courts of Appeal for the Second and Ninth Circuit, both of which applied section 505 under the now overruled dual standard prior to *Fogerty*." *Id.* at 1391 (emphasis added). Kirtsaeng's study explains that in the fifty-two months prior to *Fogerty*, the Second Circuit had only granted 12.5% of defendant's fee requests, whereas it had granted 80% in the approximately five subsequent years.[11] *Id.* The simple

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[11] Kirtsaeng's study showing an 80% fee award grant rate also gives the lie to his claim that the Second Circuit's rule imposes

reality is that courts in the Second Circuit do not hesitate to award fees to prevailing defendants when it would serve the goals of the Copyright Act. *E.g.*, *Pyatt v. Raymond*, No. 10 CIV 8764 (CM), 2012 WL 1668248, at *4 (S.D.N.Y. May 10, 2012); *Pyatt v. Jean*, No. 04-CV-3098 (TCP) (AKT), 2010 WL 3322501, at *3 (E.D.N.Y. Aug. 17, 2010); *Video-Cinema Films, Inc. v. Cable News Network, Inc.*, No. 98 CIV 7128 (BSJ), 2003 WL 1701904, at *2 (S.D.N.Y. Mar. 31, 2003); *Earth Flag Ltd. v. Alamo Flag Co.*, 154 F Supp. 2d 663, 666 (S.D.N.Y. 2001) (collecting cases).

In any case, comparing fee award rates for plaintiffs and defendants is at best an imperfect measure of whether a court has applied § 505 evenhandedly. A district court exercising its discretion and looking at the totality of the circumstances may more frequently find that the application of the *Fogerty* factors results in fees for one party rather than another, not because it is applying a biased standard, but because the facts of the cases before it dictate that outcome. Especially in an age in which the Internet has afforded substantial opportunities for willful copyright infringement, it would not be surprising to find that weak defenses are more common than weak claims. *See, e.g.*, *UMG Recordings, Inc. v. Escape Media Grp., Inc.*, No. 11 CIV 8407 TPG, 2015 WL 1873098, at *1 (S.D.N.Y. Apr.

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something akin to the "exceptional cases" requirement contained in the Patent Act, 35 U.S.C. § 285 and the Lanham Act, § 1117(a). Br. of Pet'r 25-27. An event that occurs 8 out 10 times can hardly be called "exceptional."

23, 2015) ("[B]y overtly instructing its employees to upload as many files as possible to Grooveshark as a condition of their employment, Escape engaged in purposeful conduct with a manifest intent to foster copyright infringement via the Grooveshark service." (quotation marks omitted)); *Cengage Learning, Inc. v. Shi*, No. 13CV7772-VSB-FM, 2015 WL 5167775, at *2 (S.D.N.Y Sept. 3, 2015) (defendant's willful infringement was "startlingly clear" given the violation of a prior judgment and the defendant's "continuing efforts to conceal his identity and location").

II. Kirtsaeng's Proposal Should Be Rejected Because It Would Frustrate, Rather Than Further, The Goals Of The Copyright Act.

Kirtsaeng's description of his own rule begins with a lengthy discussion in which he acknowledges: (1) that "[a] meritorious claim informs would-be creators that their rights are enforceable and deters future infringement; a meritorious defense, meanwhile redounds to the public in the form of increased access to public works," Br. of Pet'r 38-39; (2) "when litigation becomes too costly" for either plaintiff or defendant the incentives to litigate depreciate and the incentive for a settlement short of final judgment increases, *id.* at 39; and (3) "prevailing norms" of copyright law "are established only when prevailing parties have litigated them to judgment," *id.* at 40.

In light of these observations – all of which Wiley is in agreement with – one would expect Kirtsaeng to propose a rule that will not penalize plaintiffs or

defendants in those cases where litigation to judgment and through appellate review is likely to clarify a significant, and unresolved, issue of copyright law. Kirtsaeng's rule does the opposite: it discourages parties from litigating close questions of copyright law by charging them with having to pay fees when they are on the losing side of an "important" issue. That rule is convenient for Kirtsaeng now that he is a prevailing party, but it would frustrate the goals of the Copyright Act going forward, and it is inadministrable to boot.

A. Kirtsaeng's proposal would disincentivize meritorious litigation that could clarify important questions of copyright law.

The first problem with Kirtsaeng's proposal is obvious. If in cases raising the most important and close issues in copyright law, the prevailing party "ordinarily will have established a basis for a discretionary fee award," Br. of Pet'r 41, *regardless* of the objective reasonableness of the other side's arguments, parties will be less incentivized to litigate these most important cases all the way to a final judgment.

The prospect of a fee award naturally raises the stakes of litigation, and those stakes only increase as fees accrue over the courts of multiple levels of litigation. As noted above, this Court and others have recognized that the prospect of an adverse fee award disincentivizes litigants from proceeding aggressively with their cases and increases the desire to resolve a matter through settlement. *Supra* at 32-34. Kirtsaeng

disregards this basic reality. Certainly, *ex post* a successful litigant in a seminal case under Kirtsaeng's rule will receive a benefit from having seen the case through to final judgment. But, incentives work prospectively not retroactively, and the prospect of "ordinarily" having to pay a large fee award, simply for losing a close and important case, will be reason enough for many litigants on both sides to resolve cases prematurely.

Again, this case provides a perfect illustration. Even though the issue presented by this case was important, Kirtsaeng could pursue his position with the confidence that he likely would not have to pay attorney's fees if he lost, precisely *because* the issue was a close one.[12] If Kirtsaeng's rule had been the law of the Second Circuit, he would have had to weigh the probability of having to pay Wiley's fees in deciding whether to appeal his case all the way to this Court. Likewise, the prospect of having to pay what turned out to be a claim for millions of dollars of fees might well have encouraged Wiley to settle this case before it reached this Court, and thereby keep in place the 4-4 tie on the first sale doctrine that this Court reached in *Omega*. In *retrospect*, Kirtsaeng prefers his rule, but

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[12] Given that Kirtsaeng had transferred his assets out of the country and made himself judgment-proof, *see supra* at 5-6, he may never have seriously weighed the prospect of an adverse fee award. Nonetheless, Kirtsaeng's asset-transfers aside, the point remains that the threat of an attorney's fee award acts as a deterrent to any litigant in a position to pay it.

going forward, it is obvious that his proposal does not serve the goals of the Copyright Act.

The cases from the Ninth and Eleventh Circuits that Kirtsaeng cites as examples of his rule in operation do not, in fact, deemphasize the objective reasonableness of the losing party's position, or place a premium on the contribution of the victory to the state of copyright law, as Kirtsaeng claims. In *Mattel, Inc. v. MGA Entertainment Inc.*, No. CV 04-9049, 2011 WL 3420603 (C.D. Cal. Aug. 4, 2012) *aff'd*, 705 F.3d 1108 (9th Cir. 2013), the district court awarded fees, but it emphasized that Mattel's position was "far less reasonable than the claim in *Fogerty*" and that Mattel had ignored "black letter law." *Id.* at *3. In finding that this fee award was not an abuse of discretion, the Ninth Circuit noted that a prevailing party did not "ha[ve] to show" objective unreasonableness to obtain fees, but the authority it cited for this proposition was a Ninth Circuit case directing a court to consider all the *Fogerty* factors. *See Mattel, Inc. v. MGA Entm't, Inc.*, 705 F.3d 1108, 1111 (9th Cir. 2013) (citing *Apple Computer, Inc. v. Microsoft Corp.*, 35 F.3d 1435, 1448 (9th Cir. 1994)). After commenting on the importance of the case, the Ninth Circuit ultimately concluded that "[t]he district court did not abuse its discretion in awarding MGA fees for fighting against Mattel's claim 'that was stunning in scope and unreasonable in the relief it requested.'" *Id.* That kind of claim can hardly be compared to Wiley's.

The Eleventh Circuit provides even less support for Kirtsaeng's rule. Br. of Pet'r 47. In *MiTek Holdings*,

Inc. v. Arce Engineering Co., 198 F.3d 840, 842 (11th Cir. 1999), the Eleventh Circuit *reversed* a grant of fees based solely on the district court's perception of the relative financial means of plaintiff and defendant. As an instruction to the district court on remand it observed:

> The touchstone of attorney's fees under § 505 is whether imposition of attorney's fees will further the interests of the Copyright Act, *i.e.*, *by encouraging the raising of objectively reasonable claims and defenses*, which may serve not only to deter infringement but also to ensure "that the boundaries of copyright law [are] demarcated as clearly as possible" in order to maximize the public exposure to valuable works.

Id. at 842-43 (quoting *Fogerty*, 510 U.S. 526-27) (emphasis added) (alteration in original). Thus, the very case Kirtsaeng cites as an example of his preferred approach emphasizes that the "touchstone" of the § 505 determination should be the encouragement of "objectively reasonable claims and defenses." *Id.*

B. Kirtsaeng's proposal conflicts with *Fogerty* and would effectively yield the British Rule.

Kirtsaeng's rule is inconsistent with *Fogerty* in another important respect as well. In *Fogerty*, the Court could not have been more clear that § 505 was not intended to adopt the "British Rule" of fee awards

as the norm in copyright cases. *Fogerty*, 510 U.S. at 533. Kirtsaeng's rule, while not fully replicating the British Rule, goes much of the way there. Kirtsaeng would have fees awarded in a case where a party, despite making an objectively reasonable argument, loses a case of significant importance, *i.e.*, the situation presented in this case. In addition, Kirtsaeng acknowledges that fees should be awarded "where the losing party has advanced frivolous positions." Br. of Pet'r 49. In light of these two standards, the only situation in which Kirtsaeng apparently believes fees should *not* be awarded is where a losing party makes an objectively reasonable argument in a case of "localized significance" or concerning a technical issue of "copyright formalities." But Kirtsaeng gives no indication that this subset of cases represents the majority, or even plurality, of copyright litigation.[13] Thus, under Kirtsaeng's rule fees would likely be awarded in the vast majority of copyright cases, introducing a quasi-British Rule norm that *Fogerty* rejected.

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[13] To the extent that Kirtsaeng contends that fees should be reserved for cases of "seismic" importance, then his rule would seem to authorize fees only in the exceptional case, despite the absence of an "exceptional" requirement in § 505.

C. Kirtsaeng's proposal would pose significant problems in implementation in the district courts.

Under this Court's decision in *Fogerty*, and the Second Circuit's rule in *Matthew Bender*, among the nonexclusive factors that district courts evaluate in determining whether to award fees under § 505 are the objective unreasonableness of the losing party's position, the frivolousness of his claim, the losing party's motivation in litigating the suit, the need for compensation to the winning party, and the need to deter conduct like that of the losing party in the future. As ably demonstrated by the district court's decision below, those considerations are ones that district courts are well-equipped and experienced in making.

For example, district courts frequently have reason to make determinations as to whether a litigants claim is frivolous or unreasonable, in contexts ranging from the imposition of Rule 11 sanctions, *see* Fed. R. Civ. P. 11(b)(2), to dismissing claims or defenses during a pretrial conference, *see* Fed. R. Civ. P. 16(c)(2)(A), to determining whether to award attorney's fees under certain civil rights statutes such as 42 U.S.C. § 1988, *Hughes v. Rowe*, 449 U.S. 5, 14 (1980); *see also Bilal v. Driver*, 251 F.3d 1346, 1349 (11th Cir. 2001) ("[D]istrict judges remain more familiar with and are more experienced to recognize potentially frivolous claims, [and thus] [a] determination of frivolity is best left to the district court.").

Likewise, determinations such as evaluating the losing party's motivation to litigate, the need to compensate the winning party, and the desire to deter the losing party's conduct before and during the case, will all necessarily turn on an acute understanding of the specific facts and circumstances of any particular case. Making factual determinations based on the specifics of the matters before it is, of course, precisely within the expertise and experience of district courts, and the reason why district court's factual findings in the main receive substantial deference. *See, e.g.*, *Gasperini v. Ctr. for Humanities, Inc.*, 518 U.S. 415, 438 (1996) ("Trial judges have the unique opportunity to consider the evidence in the living courtroom context, while appellate judges see only the cold paper record." (internal quotation marks omitted)).

By contrast, Kirtsaeng's rule asks the district court to assess the legal significance of its own rulings, and predict the likelihood that its rulings will have "seismic significance for a particular industry, or settle[] a substantive legal issue with broad applicability." Br. of Pet'r 15. District courts are not normally called upon to assess the legal significance of their rulings, let alone make a projection as to how a ruling will impact parties, or entire industries, not before the court. Kirtsaeng makes no suggestions as to how a district court could, prospectively, make this determination, and his examples of the cases that would merit fees under his rule demonstrate precisely the problem with its implementation. In describing "natural candidates" for the award of fees under § 505, Kirtsaeng cites "the *Aereo*s, *Eldred*s, *Sony*s, and *Campbell*s," all cases in

which this Court granted certiorari and eventually ruled. Br. of Pet'r 41. But historic examples of cases that eventually required resolution by this Court are, of course, no use to a district court who cannot predict with any certainty whether its decision will cause a major shift in the law, or eventually reach this Court. Bereft of a workable framework or context for determining what constitutes a copyright decision of particular legal significance, district courts could well reach disparate and conflicting outcomes if Kirtsaeng's rule were adopted.

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The district court conducted exactly the type of fact-based, discretionary analysis that *Fogerty* and § 505 call for, and after considering every conceivable factor that could impact the fee decision – including the three proffered by Kirtsaeng – it determined that an award of attorney's fees was not appropriate here. This Court should now reaffirm that objective reasonableness can play a substantial role in the § 505 analysis in connection with consideration of all other relevant factors.

CONCLUSION

For the foregoing reasons, the decision below should be affirmed.

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